The PENSIONS Advisory Service

Spotlight

The Exit Charges Cap

This factsheet outlines the details of the exit charges cap that will be introduced from 31 March 2017.

The Pensions Advisory Service is unable to give individual specific advice and you should seek alternative tax or independent financial advice.

How does the Exit Charge Cap work?

With effect from 31 March 2017, early exit charges for pension policies:

- Will be capped at 1% of the value of a member's benefits being taken, converted or transferred from a scheme
- Cannot be increased in existing policies that currently have early exit charges set at less than 1% of the member's benefits under a scheme, and
- Will not be allowed to apply for policies entered into from 31 March 2017.
- Will not be capped for transfers between providers before age 55.

Similar changes for trust based schemes (this is where your employer operates a scheme which is looked after by a trustee body, are expected to come into force in October 2017. Fewer consumers are affected by exit charges from trust based schemes.

Market value adjustments (MVAs) for with profits policies will be allowed to apply after March 2017.

What are exit charges?

Most costs are incurred by the provider are when a pension policy is set up. These charges historically included marketing costs, commissions, salesman bonuses as well as administration costs of setting up the policy. If these charges were applied explicitly at the time they were incurred, the customer would see no value from the premiums that they pay in the early stages of their policy. Exit charges were placed on policies for those leaving their policy early before starting costs could be recouped.

Here is a simple example of how an exit charge might work.

Your policy would be split between *capital units* and *accumulation units.*

- Your fund value is £100,000 made up of £30,000 in *capital units* and the rest in *accumulation units*.
- The annual management charge (AMC) on the *accumulation units* was 1% and *capital unit* is 4%
- If there are 10 years to go to selected retirement date on the contract, very roughly, the transfer value would be £100,000 less (4%-1%) x 10 years x £30,000 i.e. £91,000

Hence the exit charge is just collecting charges that would otherwise be collected for the rest of the duration of the contract. In other words, the customer will pay the charge either as an exit charge if he accesses the money before retirement date or throughout the rest of the contract term.

I was planning to access my pension pot and I am over age 55, what should I do?

You may wish to delay the access until after March 2017, although there are other issues you should also take into consideration, including whether you need the proceeds earlier and whether or not you might be able to earn better returns in an alternative policy. You may wish to speak to an independent financial adviser (IFA) to discuss your options in more detail.

I am under the age of 55 will I incur a large exit charge if I leave?

You should check with your provider on the amount of any exit charge which might apply and also ask about the level of ongoing charges on the contract in order to better understand if you are getting value for money. If you have an IFA, they should help you carry out this analysis and they can advise on whether it makes sense to transfer. In some cases, it makes financial sense to transfer older policies into new types of arrangements. Not only might it be more helpful to have all your pensions in one place, but you may be able to move to a pension plan which better suits your needs.

I do not need to access my pension pot but I am over age 55 – what should I do?

You may wish to check with your provider on the amount of the exit charge plus also the ongoing charges on the contract in order to better understand if you are getting value for money. It may be worth transferring to a new pension contract. If you have an IFA, they should help you carry out this analysis.

About Us

The Pensions Advisory Service (TPAS) works to make pensions accessible and understandable for everyone. We provide independent and impartial information and guidance about pensions, free of charge, to members of the public.

We help with all pension matters covering workplace, personal and stakeholder schemes and also the State Pension. We answer general questions, help with specific queries and offer guidance for people with complaints about their private pension scheme.

The Pensions Advisory Service is provided by Money & Pensions Service

Contacting us

Pensions Helpline (Monday-Friday 9am-5pm) — **0800 011 3797**

Online enquiry form — www.pensionsadvisoryservice.org.uk/online-enquiry

Web chat live (Monday-Friday 9am-6pm open late Tuesdays 7pm-9pm) — www.pensionsadvisoryservice.org.uk

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